

Basic concepts of labour market economics essay



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Labour market can be defined as the market which the employees look and compete for employment and the employers look and compete for workers. Individual, firms and government are three main groups of participants in the labor market. There are several reasons to affect the participants to make labor market decisions.

For individuals, they are concerning about time of entering the labor force, qualification of the job, type of job, working hours, salary allocation, employment rate, participation of union or employee association and retirement. For firms, they are concerning about number of workers to be hired and requirement of the working time, workers with specified qualification, salary and benefit allocation, risking of lay-off employees, type of work can be subcontracted out and designation of retirement policy and effective pension. For government, they are setting various policies that have direct influence for the labor market decisions of individuals and firms which are anti-discrimination laws and human rights, employment standards and laws involving minimum salaries, hours of work and overtime, paternity and maternity leave, workers compensation and occupational health and safety laws, labor relations laws regulating the collective bargaining process, income maintenance and employment insurance policies, public pension and offering jobs in the public sector.

The major idea of labour market economics is analyzing the determinants of various dimensions of labour supply and demand. Moreover, the dimensions of labour supply and labour demands interact to determine wages, employment and unemployment. The dimensions of labour supply include demographics, emigration and immigration policies, education and training,

disincentive effects of income maintenance, the labour force participation decision and unemployment insurance policies. The dimensions of labour demand is depend on how firms change their demand for labour in answer to change in the wage rate and other costs, include quasi-fixed costs associated with hiring and training workers, fringe benefits and legislatively imposed costs. Labour market is influenced by global competition, free trade and technological change because it also is a derived demand from the demand for the firm's output.

2.0 Theoretical Background

Basic concepts of labour market

The total labour force in the economy is the number of people employed plus the number of unemployed. If a household member 16 years of age or older worked for pay for someone else or in his or her own business for 1 or more hours per week is classified as employed. A household member is also considered employed if he or she worked without pay for 15 or more hours per week in his or her family enterprise. Lastly, a household member who has a job but has been temporarily absent due to illness, bad weather or personal reasons with or without pay is also considered as employed. To be considered as unemployed, a person must be 16 years old or older, available for work, and has made specific efforts to find work during the previous four weeks.

Labour Force

Country

1999

2000

2001

2003

2004

2005

2006

2007

2008

2009

2010

2011

Japan

67, 760, 000

67, 700, 000

67, 700, 000

66, 660, 000

66, 970, 000

66, 400, 000

66, 440, 000

66, 690, 000

66, 500, 000

66, 170, 000

65, 700, 000

65, 930, 000

The line graph shows the changes in the total labour force in Japan between 1999 and 2011. Overall, there has been a decrease in the number of labour force from 1999 to 2011. The recent estimate showed the total number of labour force in Japan in 2011 is 65. 93 million.

Unemployment Rate (%)

Country

1999

2000

2002

2003

2004

2005

2006

2007

2008

2009

2010

2011

Japan

4. 7

4. 7

5. 4

5. 3

4. 7

4. 4

4. 1

3. 8

4

5. 1

5. 1

4. 6

The unemployment rate is the ratio of the number of people unemployed to the total number of people in the labour force. The line graph shows the percentage of unemployment rate in Japan between 1999 and 2011. The unemployment rate has been fluctuating over the 12 years. It is a serious concern for the Japan's government although the employment rate is low compared to other developed countries in the world.

During this period, the major changes took place in the Japan's job market that led to increase in unemployment in Japan compared with the past 20 years. Firing, early retirement programs, limiting of overtimes, and increasing part-timers were undertaken by majority of the companies in Japan. In 1999, 3.18 million people were jobless and the unemployment rate rose to 4.7%. This has been a matter concern for Japan that has always maintained a low level of unemployment.

According to the latest available estimates, the unemployment rate in 2011 is around 4.6%. This indicates that there were 3.03 million unemployed people on that time.

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Types of Unemployment

There are three types of unemployment which is frictional unemployment, structural unemployment and cyclical unemployment. The portion of unemployment due to the normal working of the labour market is called frictional unemployment. The frictional unemployment rate can never be zero. As the number of requiring skills increases, the frictional unemployment rate may rise due to the matching skills and jobs becomes more complex.

The following type of unemployment is structural unemployment which is the portion of unemployment due to changes in the structure of the economy that result in a significant loss of jobs in the certain industries. The fact that the structural unemployment is natural and inevitable and it only can be reduced.

The economists use the term natural rate of unemployment to refer the unemployment still happened as a normal part of the functioning of the economy. Even though the economy is operating at full capacity, unemployment will not be zero. The cyclical unemployment is the increase in unemployment caused by recessions and depressions.

Classical View of Labour Market

Classical economists assumed that the wage rate adjusts to equate the quantity demanded with the quantity supplied, which implied the unemployment does not exist. They believe that the labour market always clears. If the labour demand decrease, the equilibrium wage will fall. Anyone

who wants a job will accept the lower wage. This means that a decline in the labour demand does not necessarily increase the unemployment. At equilibrium, the people who are not working choose not to work at that market wage. There is always full of employment in this circumstance.